



PERMEX PETROLEUM CORPORATION

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three Months Ended December 31, 2019

(Unaudited – Prepared by Management)

(EXPRESSED IN CANADIAN DOLLARS)

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORT

The accompanying unaudited condensed consolidated interim financial report of Permex Petroleum Corporation (the "Company") has been prepared by and is the responsibility of the Company's management.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

	Note	December 31, 2019	September 30, 2019
ASSETS			
Current assets			
Cash		\$ 604	\$ 3,574
Trade and other receivables	5	120,229	137,786
Prepaid expenses and deposits		38,991	74,861
		159,824	216,221
Non-current assets			
Restricted cash	6	25,000	25,000
Reclamation deposits	7	253,500	258,180
Property and equipment	7	9,944,968	9,805,517
Total assets		\$ 10,383,292	\$ 10,304,918
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	8	\$ 714,260	\$ 936,003
Amounts due to related parties	10	167,130	130,219
		881,390	1,066,222
Non-current liabilities			
Decommissioning liabilities	9	3,165,972	3,155,623
Lease obligation	3	147,849	-
Loan debenture to related party	10	100,000	-
Total liabilities		4,295,211	4,221,845
Equity			
Share capital	11	8,210,041	8,210,041
Share subscription proceeds		40,500	40,500
Reserves	12	1,777,526	1,777,526
Accumulated other comprehensive loss		63	(837)
Deficit		(3,944,049)	(3,944,157)
Total equity		6,088,081	6,083,073
Total liabilities and equity		\$ 10,383,292	\$ 10,304,918

Nature of business (Note 1)

Commitments and contingencies (Note 18)

Event after the reporting period (Note 19)

The financial statements were authorized for issue by the board of directors on February 28, 2020 and were signed on its behalf by:

“Mehran Ehsan”

Director

“Scott Kelly”

Director

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
THREE MONTHS ENDED DECEMBER 31
(Unaudited – Prepared by Management)

	Note	2019	2018
Revenue			
Oil and gas sales		\$ 371,167	\$ 412,595
Direct operating expenses			
Producing and operating		(195,554)	(236,737)
		175,613	175,858
Expenses			
Accounting and audit		15,000	17,100
Accretion of decommissioning liabilities	9	15,222	19,827
Consulting	10	17,509	20,781
Depletion and depreciation	7	24,507	23,569
Filing and transfer agent		8,741	7,027
Investor relations and news dissemination		31,535	42,127
Legal fees		-	31,365
Management fees		37,500	51,250
Marketing and promotion		9,786	117,581
Office and miscellaneous		20,008	43,659
Salaries		13,570	39,710
Share-based payments	12	-	90,162
Travel		9,857	12,492
		(203,235)	(516,650)
Other items			
Foreign exchange gain		(9,626)	10,586
Finance fee		-	(70,000)
Other income		10,000	-
Settlement of trade payables		31,356	-
		31,730	(59,414)
Net income (loss) for the period		\$ 4,108	\$ (400,206)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		900	(1,151)
Comprehensive loss for the period		\$ 5,008	\$ (401,357)
Basic and diluted earnings (loss) per common share	11	\$ 0.00	\$ (0.01)

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

	Note	Number of Shares	Share capital	Reserves	Share subscription proceeds	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2019		40,024,114	\$ 8,210,041	\$ 1,777,526	\$ 40,500	\$ (837)	\$ (3,944,157)	\$ 6,083,073
Loss for the period		-	-	-	-	-	4,108	4,108
Other comprehensive loss for the period		-	-	-	-	900	-	900
Balance, December 31, 2019		40,024,114	\$ 8,210,041	\$ 1,777,526	\$ 40,500	\$ 63	\$ (3,940,049)	\$ 6,088,081

	Note	Number of Shares	Share capital	Reserves	Share subscription proceeds	Accumulated other comprehensive loss	Deficit	Total equity
Balance, September 30, 2018		35,973,748	\$ 7,626,979	\$ 1,679,471	\$ -	\$ (296)	\$ (3,058,973)	\$ 6,247,181
Share-based payments	12	-	-	90,162	-	-	-	90,162
Loss for the period		-	-	-	-	-	(400,206)	(400,206)
Other comprehensive loss for the period		-	-	-	-	(1,151)	-	(1,151)
Balance, December 31, 2018		35,973,748	\$ 7,626,979	\$ 1,769,633	\$ -	\$ (1,447)	\$ (3,459,179)	\$ 5,935,986

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED DECEMBER 31
(Unaudited – Prepared by Management)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss for the period	\$	4,108	\$ (400,206)
Items not affecting cash:			
Accretion of decommissioning liabilities		15,222	19,827
Depletion and depreciation		24,507	23,569
Foreign exchange loss (gain)		14,067	(35,070)
Interest		4,592	-
Share-based payments		-	90,162
Settlement of trade payables		(31,356)	-
Changes in non-cash working capital items:			
Trade and other receivables		17,557	84,884
Prepaid expenses and deposits		35,870	19,956
Trade and other payables		(116,197)	287,653
Amounts due to related parties		37,500	6,498
Net cash provided by operating activities		5,870	97,273
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures on property and equipment		(95,879)	(113,974)
Lease payments		(12,372)	-
Net cash used in investing activities		(108,251)	(113,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts due to related party		(589)	15,000
Loan debenture from related party		100,000	-
Net cash provided by financing activities		99,411	15,000
Change in cash during the period		(2,970)	(1,701)
Cash, beginning of the period		3,574	17,129
Cash, end of the period	\$	604	\$ 15,428

Supplemental cash flow information (Note 13)

The accompanying notes are an integral part of these consolidated financial statements.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

1. NATURE OF BUSINESS

Permex Petroleum Corporation (the “Company”) was incorporated on April 24, 2017 under the laws of British Columbia, Canada and maintains its head office at Suite 1290, 625 Howe Street, Vancouver, British Columbia, Canada, V6C 2T6. Its registered office is located at 10th floor, 595 Howe Street, Vancouver, British Columbia, Canada, V6C 2T5. The Company is primarily engaged in the acquisition, development and production of oil and gas properties in the United States. The Company’s oil and gas interests are located in Texas and New Mexico, USA. The Company is listed on the Canadian Securities Exchange (the “CSE”) under the symbol “OIL” and on the OTCQB under the symbol “OILCF”.

2. BASIS OF PREPARATION

Statement of compliance

These condensed unaudited interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The condensed interim consolidated financial statements do not include all of the disclosures required for a complete set of annual financial statements and should be read in conjunction with the audited annual financial statements for the year ended September 30, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Permex Petroleum US Corporation. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency for the subsidiary of the Company is the United States dollar (“USD”), and the financial statement items of the subsidiary are measured using that functional currency.

2. BASIS OF PREPARATION (cont'd...)

Going concern of operations

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company has incurred losses since inception in the amount of \$3,940,049 and not yet achieved profitable operations. As at December 31, 2019, the Company had working capital deficiency of \$721,566. The Company's ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. While the Company has been successful in securing financing to date, there can be no assurances that it will be able to do so in the future. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

These consolidated financial statements do not include adjustments that would be required if the going concern assumption is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's audited annual consolidated financial statements for the year ended September 30, 2019 were consistently applied to all the periods presented unless otherwise noted below.

Comparative information

Certain comparative information in these financial statements has been reclassified to conform to the presentation of the current period financial statements.

New accounting policies

IFRS 16 – Leases

This standard replaces IAS 17, Leases. IFRS 16 eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability in the statement of financial position for all leases, with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease; sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and option periods; changes the accounting for sale and leaseback arrangements; and introduces new disclosure requirements. Under IFRS 16, a lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Right-of-use assets will be initially measured at cost, which includes the initial measurement of the lease liabilities and other costs, less lease incentives. Lease liabilities will initially be measured at the present value of future lease payments and subsequently measured at amortized cost using the effective interest method. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances and may be applied retrospectively to each prior period presented (full retrospective approach) or with the cumulative effect of adoption recognized at initial application (modified retrospective approach). The modified retrospective approach offers the option, on a lease by lease basis, to either measure the right-of-use asset retrospectively using the discount rate as at the date of initial application or to measure the right-of-use asset at an amount equal to the lease liability.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New accounting policies (cont'd...)

IFRS 16 – Leases (cont'd...)

The Company adopted IFRS 16 on October 1, 2019. On initial adoption, the Company has elected to record right-of-use assets based on the corresponding lease obligation. Right-of-use asset and lease obligation of \$155,629 were recorded as of October 1, 2019, with no impact on deficits. When measuring the present value of lease obligations, the Company discounted remaining lease payments using its incremental borrowing rate at October 1, 2019, which was a weighted-average rate of 12%.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future years.

Critical accounting judgments

Identification of Cash-generating units (“CGUs”)

The Company’s assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on an assessment of the unit’s ability to generate independent cash inflows. The determination of these CGUs is based on management’s judgment with regards to shared infrastructure, geographical proximity, petroleum type and similar exposure to market risk and materiality.

Impairment assessment of property and equipment

The assessment of any impairment of property and equipment is dependent upon estimates of recoverable amounts that take into account factors such as reserves, economic and market conditions, timing of cash flows, the useful lives of assets and their related salvage values.

Recoverability of asset carrying values

At each reporting date, the Company assesses its petroleum and natural gas properties and exploration and evaluation assets for possible impairment, to determine if there is any indication that the carrying amounts of the assets may not be recoverable.

The determination of the functional currency

The functional currency of the Company is the currency of the Company’s economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determines the primary economic environment.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (cont'd...)

Critical accounting estimates and assumptions

Decommissioning obligations

Decommissioning obligations require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. Provisions are not recognized for future operating losses.

Provisions for decommissioning associated with the Company's oil and gas operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows may differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions and changes in clean up technology. Estimates are made using internal and external information.

Depreciation

Equipment is amortized over the estimated useful life of the assets. Changes in the estimated useful lives or depreciation rate used could significantly increase or decrease the amount of depreciation recorded during the period and the carrying value of equipment.

Petroleum and natural gas interests

Reserves resources are used in the unit-of-production calculation for depreciation and depletion and the impairment analysis, which affects net loss. There are numerous uncertainties inherent in estimating petroleum and natural gas ("P&NG") reserves. Estimating reserves is complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available and as the economic environment changes.

Share-based payments

The determination of the fair value of stock options and agent's warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate.

Going concern assumption

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

5. TRADE AND OTHER RECEIVABLES

	December 31, 2019	September 30, 2019
Trade receivables	\$ 110,917	\$ 122,103
Goods and services taxes recoverable	9,312	15,683
	\$ 120,229	\$ 137,786

The Company anticipates full recovery of its receivables and therefore no allowance has been recorded against these amounts as at December 31, 2019 (September 30, 2019 - \$nil).

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

6. RESTRICTED CASH

The Company has provided a corporate credit card to its Chief Executive Officer (“CEO”) with a credit limit totalling \$25,000 for the Company’s expenses. As collateral for the credit cards, the Company has a one-year term deposit of \$25,000 earning annual interest of 0.5%.

7. PROPERTY AND EQUIPMENT

	Oil and natural gas properties	Corporate	Total
Cost			
Balance at September 30, 2018	\$ 9,193,661	\$ 56,582	\$ 9,250,243
Capital expenditures	413,377	-	413,377
Change in decommissioning provisions	605,204	-	605,204
Foreign exchange movement	13,884	-	13,884
Impairment write-offs	(325,360)	-	(325,360)
Balance at September 30, 2019	\$ 9,900,766	\$ 56,582	\$ 9,957,348
Capital expenditures	21,689	-	21,689
Right of use office lease assets	-	155,629	155,629
Foreign exchange movement	(13,368)	-	(13,368)
Balance at December 31, 2019	\$ 9,909,087	\$ 212,211	\$ 10,121,298
Accumulated depletion and depreciation			
Balance at September 30, 2018	\$ 51,263	\$ 10,677	\$ 61,940
Depletion and depreciation	78,570	13,026	91,596
Foreign exchange movement	(1)	-	(1)
Write-off adjustment	(1,704)	-	(1,704)
Balance at September 30, 2019	\$ 128,128	\$ 23,703	\$ 151,831
Depletion and depreciation	11,673	12,834	24,507
Foreign exchange movement	(8)	-	(8)
Balance at December 31, 2019	\$ 139,793	\$ 36,537	\$ 176,330
Net amount			
Balance at December 31, 2019	\$ 9,769,294	\$ 175,674	\$ 9,944,968
Balance at September 30, 2019	\$ 9,772,638	\$ 32,879	\$ 9,805,517

The Company is engaged in the exploration for, and the development of, petroleum and natural gas projects in the United States. The Company holds 41% to 100% working interests and 34.7% to 81.3% net revenue interests in the various oil and gas properties located in Texas and New Mexico.

As of December 31, 2019, the Company held reclamation bonds of \$253,500 (US\$195,000) (September 30, 2019 - \$258,180 (US\$195,000)), which are expected to be released after all reclamation work has been completed with regard to its oil and natural gas interests.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

8. TRADE AND OTHER PAYABLES

	December 31, 2019	September 30, 2019
Trade payables	\$ 590,318	\$ 829,392
Accrued liabilities	78,630	63,102
Other payables	45,312	43,509
	\$ 714,260	\$ 936,003

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to oil and gas and general operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

9. DECOMMISSIONING LIABILITIES

The total future decommissioning obligations are based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of estimated cash flows required to settle the Company's liabilities is approximately \$3,912,727 as at December 31, 2019 (September 30, 2019 - \$3,912,727) and expected to be incurred on average in 18 years. The estimated net present value of the decommissioning liabilities was calculated using an inflation factor of 2.0% (2018 - 2.0%) and discounted using a risk-free rate of 1.93% (2018 - 3.13%) based on expected settlement date.

Changes to the decommissioning liabilities are as follows:

	December 31, 2019	September 30, 2019
Decommissioning liabilities, beginning of the year	\$ 3,155,623	\$ 2,529,806
Decommissioning costs incurred	-	(61,399)
Change in discount rate	-	605,204
Accretion expense	15,222	77,420
Foreign exchange movement	(4,873)	4,592
	\$ 3,165,972	\$ 3,155,623

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

10. RELATED PARTY TRANSACTIONS

Included in amounts due to related parties are \$93,750 (September 30, 2019 - \$56,250) related to services rendered to the Company by the President of the Company and \$73,380 (September 30, 2019 - \$73,969) in advances from the President of the Company. Amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

During the three months ended December 31, 2019, the Company issued secured convertible debentures of \$100,000 to a director of the Company. The debentures are secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, have a maturity date of September 30, 2021, and bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible at the holder's option into units of the Company at \$0.15 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of \$0.20. As at December 31, 2019, the interest accrued on the loan was \$2,466.

Key management personnel include directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the three month periods ended December 31 is as follows:

	2019	2018
Management fees	\$ 37,500	\$ 51,250
Share-based payments	-	63,519
Total	\$ 37,500	\$ 114,769

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the three month period ended December 31, 2019:

- a) Incurred management fees of \$37,500 (2018 - \$37,500) to a company controlled by the President of the Company.
- b) Incurred management fees of \$nil (2018 - \$7,500) to a company controlled by the Chief Financial Officer of the Company.
- c) Incurred management fees of \$ nil (2018 - \$6,250) to a director of the Company.

On August 1, 2017, the Company entered into an employment agreement with its Chief Executive Officer ("CEO") of the Company for monthly base salary of \$12,500, with no specified term. The employment agreement may be terminated with twelve months' notice or a termination payment equal to twelve months of accrued base salary and a bonus equal to 20% of the annual salary.

11. SHARE CAPITAL

Authorized share capital

The Company has authorized an unlimited number of common shares with no par value.

Issued share capital

At December 31, 2019, the Company had 40,024,114 common shares outstanding (September 30, 2019 - 40,024,114).

Escrowed shares

3,250,000 common shares issued prior to the completion of the IPO are subject to an escrow agreement dated March 7, 2018. Under the terms of the escrow agreement, 10% of the escrowed common shares will be released from escrow on the listing date and 15% will be released every six months thereafter over a period of thirty six months. As at December 31, 2019, 1,462,500 common shares remained in escrow.

Share issuance

There were no shares issued during the three months ended December 31, 2019.

During the year ended September 30, 2019, the Company completed a non-brokered private placement of 4,050,366 units at a price of \$0.15 per unit for gross proceeds of \$607,555. Each unit is comprised of one common share and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 24 months at an exercise price of \$0.25. In connection with the private placement, the Company paid a finder's fee of \$16,600 and issued 104,000 agent's warrants. The agent's warrants were valued at \$7,893 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.59%, an expected life of 2 years, annualized volatility of 120% and a dividend rate of 0%). Each agent's warrant entitles the holder to acquire one common share at a price of \$0.25 until May 8, 2021.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three month period ended December 31, 2019 was based on the income attributable to common shareholders of \$4,108 (2018 - a loss of \$400,206) and a weighted average number of common shares outstanding of 40,024,114 (2018 - 35,973,748).

At December 31, 2019, 2,540,189 stock options (2018 - 2,896,801) and 4,805,206 (2018 - 650,840) warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

12. SHARE-BASED PAYMENTS

Stock options

The Company has a stock option plan (the “Plan”) in place under which it is authorized to grant options to executive officers and directors, employees and consultants. Pursuant to the Plan, the Company may issue aggregate stock options totaling up to 10% of the issued and outstanding common stock of the Company. Further, the Plan calls for the exercise price of each option to be equal to the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years and vest at the discretion of the Board of Directors at the time of grant.

Stock option transactions are summarized as follows:

	Number of options	Weighted Average Exercise Price
Balance, September 30, 2018	2,631,612	\$ 0.50
Granted	300,000	0.30
Cancelled	(391,423)	0.50
Balance, September 30, 2019 and December 31, 2019	2,540,189	\$ 0.48
Exercisable at December 31, 2019	2,540,189	\$ 0.48
Weighted average fair value of options granted during the period	\$ nil	(2018 - \$0.21)

The options outstanding at December 31, 2019 have exercise prices in the range of \$0.30 to \$0.50 and a weighted average remaining contractual life of 8.04 years.

The total share-based payments calculated for stock options granted during the three months ended December 31, 2019 was \$nil (2018 - \$63,519) using the Black-Scholes option pricing model. During the three months ended December 31, 2019, the Company recognized share based payment expense of \$nil (2018 - \$90,162) for the portion of stock options that vested during the period.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	2019	2018
Risk-free interest rate	-	2.48%
Expected life of options	-	10 Years
Expected annualized volatility	-	120%
Dividend rate	-	Nil

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

12. SHARE-BASED PAYMENTS (cont'd...)

Stock options (cont'd...)

As at December 31, 2019, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
2,240,189	\$ 0.50	December 4, 2027
300,000	\$ 0.30	November 1, 2028
2,540,189		

Warrants

Warrants are issued as private placement incentives. Agents' warrants are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2018	650,840	\$ 0.50
Warrants issued	4,050,366	0.25
Agent's warrants issued	104,000	0.25
Balance, September 30, 2019 and December 31, 2019	4,805,206	\$ 0.28

The warrants outstanding at December 31, 2019 have exercise prices in the range of \$0.25 to \$0.50 and a weighted average remaining contractual life of 1.35 years.

As at December 31, 2019, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
4,154,366	\$ 0.25	May 8, 2021
650,840	\$ 0.50	May 16, 2021
4,805,206		

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

13. SUPPLEMENTAL CASH FLOW INFORMATION

Significant non-cash transactions during the three months ended December 31, 2019 included:

- a) Included in trade and other payables are \$221,254 related to property and equipment.

Significant non-cash transactions during the three months ended December 31, 2018 included:

- a) Included in trade and other payables are \$301,590 related to property and equipment and \$30,000 related to share issuance costs.

14. SEGMENTED INFORMATION

Operating segments

The Company operates in a single reportable segment – the acquisition, development and production of oil and gas properties in the United States.

Geographic segments

The Company's non-current assets are located in Canada and the United States as follows:

At December 31, 2019:

	Canada	USA	Total
Restricted cash	\$ 25,000	\$ -	\$ 25,000
Reclamation deposits	-	253,500	253,500
Property and equipment	175,674	9,769,294	9,944,968
	\$ 200,674	\$ 10,022,794	\$ 10,223,468

At September 30, 2019:

	Canada	USA	Total
Restricted cash	\$ 25,000	\$ -	\$ 25,000
Reclamation deposits	-	258,180	258,180
Property and equipment	32,879	9,772,638	9,805,517
	\$ 57,879	\$ 10,030,818	\$ 10,088,697

All of the Company's oil and gas sales and direct operating expenses are incurred in the United States. During the three months ended December 31, 2019, the Company generated 70% of total revenue from one customer (2018 - 54%). As at December 31, 2019, one customers represented \$91,205 (85%) of the trade receivable balance (September 30, 2019 - three customers represented \$127,947 (61%)). It is in management's opinion that the Company is not exposed to significant credit risk.

15. FINANCIAL INSTRUMENTS

The Company classified its financial instruments as follows: cash, trade and other receivables, restricted cash and reclamation deposits as subsequently measured at amortized cost; and trade and other payables and amounts due to related parties as subsequently measured at amortized cost financial liabilities and loan debenture as fair value through profit or loss. Information on certain types of financial instruments is included elsewhere in these financial statements as follows: trade and other receivables (Note 5), restricted cash (Note 6), reclamation deposits (Note 7), trade and other payables (Note 8), amounts due to related parties and loan debenture (Note 10).

The carrying amount of cash, trade and other receivables, restricted cash, reclamation deposits, trade and other payables and amounts due to related parties carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments and/or the rate of interest being charged.

Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, foreign currency exchange risk, interest rate risk and commodity price risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely basis and in an effective manner.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash, trade and other receivables, amount due from related party, restricted cash and reclamation deposits. The credit risk with respect to its cash, restricted cash and reclamation deposits is minimal as they are held with high-credit quality financial institutions. The Company's GST recoverable is due from the Canadian Government. Management does not expect these counterparties to fail to meet their obligations. The Company does not anticipate any default of its trade receivables, as it transacts with creditworthy customers and management does not expect any losses from non-performance by these customers.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they fall due. The Company performs cash flow forecasting to ensure sufficient cash is available to fund its projects and operations. As at December 31, 2019, the Company has current assets of \$159,824 and current liabilities of \$881,390. The Company's financial liabilities include accrued expenses and trade and other payables which have contractual maturities of 30 days or are due on demand.

At present, the Company's operations do not generate positive cash flows. The Company's primary source of funding has been the issuance of equity securities through private placements and revenue from oil and gas production. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings.

Foreign currency exchange risk

Foreign currency exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and administrative expenditures are transacted in Canadian dollars. The Company funds its oil and gas operations in the United States by using USD converted from its Canadian bank accounts. At December 31, 2019, the Company had financial assets of \$253,500 and financial liabilities of \$262,184 denominated in United States dollars. A 10% strengthening of the US dollar would affect net loss by approximately \$10,000. The Company does not hedge its foreign exchange risk.

15. FINANCIAL INSTRUMENTS (cont'd...)

Financial risk management (cont'd...)

Interest rate risk

The Company is exposed to interest rate risk arising from cash held in Canadian financial institutions. The interest rate risk on cash is not considered significant due to its short-term nature and maturity. The exposure to interest rates for the Company is considered minimal. The Company has not used any financial instrument to hedge potential fluctuations in interest rates.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in the price of oil and natural gas. Commodity prices are impacted by world economic events that affect supply and demand, which are generally beyond the Company's control. Changes in crude oil prices may significantly affect the Company's results of operations, cash generated from operating activities, capital spending and the Company's ability to meet its obligations. The Company manages this risk by constantly monitoring commodity prices and factoring them into operational decisions, such as contracting or expanding its capital expenditures program.

16. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at December 31, 2019, the carrying amount of loan debenture measured at fair value through profit or loss is a reasonable approximation of fair value due to its relatively short period to maturity and/or the rate of interest being charged. There have been no changes in these levels and no changes in classifications during the three months ended December 31, 2019.

17. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the acquisition and development of its oil and gas properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company considers shareholders' equity as the component of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue additional shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

The Company is not subject to externally imposed capital requirements.

PERMEX PETROLEUM CORPORATION
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED DECEMBER 31, 2019
(Unaudited – Prepared by Management)

18. COMMITMENTS

Office lease

The Company has entered into an office lease agreement for its office premises for a term ending August 31, 2023. The annual minimum lease commitments under the lease are as follows:

2020	\$	37,115
2021		49,581
2022		50,614
2023		<u>46,396</u>
	\$	183,706

19. EVENT AFTER THE REPORTING PERIOD

Subsequent to December 31 2019, the Company issued secured convertible debentures of \$100,000 to the President of the Company. The debentures are secured by an interest in all of the Company's right, title, and interest in all of its oil and gas assets, have a maturity date of February 20, 2022, and bear interest at a rate of 12% per annum, payable on maturity. The debentures are convertible at the holder's option into units of the Company at \$0.15 per unit. Each unit will be comprised of one common share of the Company and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of three years at an exercise price of \$0.20.